Other Post Employment Benefits (OPEB)

- What are OPEBs?
  - Other Post Employment Benefits besides pensions. In Westford, they are health and life insurance.
  - In 2004, the General Accounting Standards Board (GASB) issued statement 45 that required governmental entities to recognize the cost of OPEB's when they are earned (when the employees are working) rather than when they are paid.
  - OPEB's are part of the compensation for services rendered by employees.
- What is Westford's Liability?
  - In 2009, an actuarial study was performed that valued the OPEB liability at $55M.
  - In 2011, another study was completed that valued the OPEB at $67M. The increase was attributed to higher than expected retirement rates and increased health insurance premiums.
  - In June of 2013, the most recent OPEB actuarial study was completed and the unfunded liability is $72M.
- How was the Liability Calculated
  - The $72M liability is amortized over a 30 year period. The Annual Required Contribution (ARC) is calculated at $6.6M. This amount includes the pay-as-you-go portion for current retirees of $2M per year which is currently budgeted. It also includes normal costs and projected inflation rates for current employees.
- How to Address the Liability
  - At the March 26, 2011 Town Meeting, a motion was passed to establish an OPEB irrevocable trust fund. Westford appropriated $50,000 into the fund.
  - To date, Town Meeting has allocated a total of $200,000 towards the OPEB Liability.
  - Westford needs a long term strategy to address this growing problem. We are here today to discuss your ideas and solicit public input.
- Other Facts
  - The liability is a non-cash charge and does not require pre-funding like a pension plan at this time.
  - Can reduce liability by having plan design changes (reducing covered expenses, increasing co-pays, implementing deductibles, etc.).

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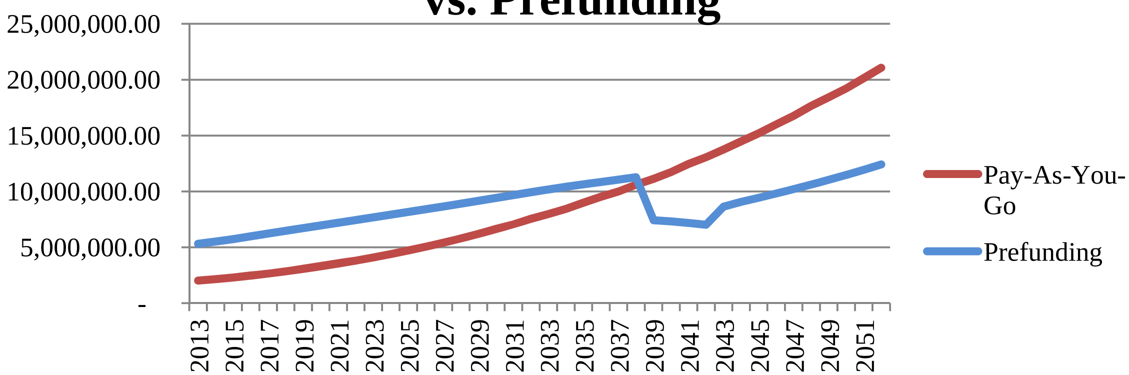
- Strategies to Fund the OPEB Liability
- **Pay-As-You-Go:**
  - Advantages:
    - Lower current cash outlay
    - No administrative costs associated with a new separate Trust Fund
    - Easier to Understand
  - Disadvantages
    - No investment earnings to offset costs
    - Potential reduction in bond rating
    - Large Net OPEB Obligation on Balance Sheet
    - Maintains costs shifting to the next generation of tax payers

OPEB Funding Options: Pay-As-You-Go vs. Prefunding



- **Prefunding:**
  - Advantages:
    - More economical over time – investment returns will supplement employer and employee contributions
    - Increased security for employees and retirees
    - Helps maintain bond rating
    - Assists in budgeting – available assets act like a reserve to smooth large increases in medical costs
    - Keeps the liability under control
  - Disadvantages
    - Higher short term cash outlay
    - Higher administrative costs
    - More complex